



## KENTUCKY TRANSPORTATION CENTER

**THE INTERNATIONAL FUEL TAX AGREEMENT (IFTA) AND  
INTERNATIONAL REGISTRATION PLAN (IRP): ALLOCATING  
COMMERCIAL FUEL TAX AND REGISTRATION FEE  
PAYMENTS ACROSS  
MULTIPLE JURISDICTIONS**



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**Research Report  
KTC-07-09/TA24-05-1F**

**The International Fuel Tax Agreement (IFTA) and  
International Registration Plan (IRP): Allocating  
Commercial Fuel Tax and Registration Fee Payments across  
Multiple Jurisdictions**

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Kentucky Transportation Cabinet  
Commonwealth of Kentucky**

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16. Abstract This report provides: (1) an overview of the IFTA and IRP processes for allocating fuel tax revenues across jurisdictions; and (2) an assessment of these systems in regard to their effectiveness at allocating the tax and fee burden among commercial carriers in an efficient and accurate manner. Three aspects of the system were assessed by answering the following questions: (1) Is the system effectively fostering cooperation among the 58 jurisdictions governed by the IFTA and IRP agreements? (2) Is it effectively promoting the allocation of tax burdens and payments among the jurisdictions? and (3) Is it effectively collecting tax payments and preventing tax evasion? Survey results suggest that the answer to the first question is a qualified yes. Respondents (1) perceived IFTA, Inc. to be very effective in encouraging inter-jurisdictional trust and cooperation; (2) were very satisfied with their communications with IFTA, Inc.; but (3) were less satisfied with communications and coordination of tax reconciliation activities with other jurisdictions. In response to the second question, respondents clearly felt that IFTA, Inc. and IRP, Inc. were well run. In fact, the study found a strong belief that taxes are being collected in a fair and equitable manner. Survey respondents also indicated that the IFTA Clearinghouse and Regional Processing Center were effective tax netting organizations. However, the findings also suggest there may be some problems with tax collection and allocation: (1) The audits uncover many problems with compliance with the rules for mileage reporting; and (2) states with high fuel tax rates may be experiencing revenue shortfalls compared to the low tax rate states. There was no indication that legal issues were a significant problem. Indeed, the legal changes made by the states in order to join IFTA and the IRP appear to have been relatively straightforward with no legal problems of any significance afterward.			
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## **Executive Summary**

With the exception of Oregon, 47 of the 48 contiguous states and 10 Canadian Provinces levy taxes on the fuel used by interstate commercial carriers, a tax customarily paid at the retail pump or wholesale rack upon purchase. The states and provinces also charge commercial vehicle registration fees for operating commercial vehicles in their jurisdictions. The collection of fuel taxes and registration fees from interstate commercial carriers is rendered complex by the requirement that commercial carriers pay their fuel taxes and registration fees in direct proportion to the number of miles they drive in each jurisdiction.

The states have delegated responsibility for the organization and oversight of the collection of these taxes and fees to non-profit third parties—IFTA, Inc and IRP, Inc. These were established by the International Fuel Tax Agreement (IFTA) and the International Registration Plan (IRP), which were devised to ensure that carriers pay taxes and fees in proportion to the mileage driven in each member jurisdiction (i.e., the 48 states and 10 provinces.)

This report provides: (1) an overview of the IFTA and IRP processes for allocating fuel tax and registration fee revenues across jurisdictions; and (2) an assessment of these systems in regard to their effectiveness at allocating the tax and fee burden among commercial carriers in an efficient and accurate manner. Three aspects of the system were assessed by answering the following questions:

1. Is the system effectively fostering cooperation among the 58 jurisdictions governed by the IFTA and IRP agreements?
2. Is it effectively promoting the allocation of tax burdens and payments among the jurisdictions?
3. Is it effectively collecting tax payments and preventing tax evasion?

The research approach involved two principle steps. The first step was a review of the documents and literature pertaining to IFTA and IRP. This step produced a detailed description of the organizational structure and activities of IFTA, Inc., the organization that oversees the collection of fuel taxes by the states, and a detailed description of IRP, Inc., the organization that oversees the collection and allocation of registration fees. Since the task of IFTA, Inc. is more complex than that of IRP and fuel taxes generate much more revenue than registration fees, the study devotes more attention to IFTA.

The second step was a survey of IFTA officials from the 58 jurisdictions to obtain their assessment of the current operation of the IFTA and IRP systems. This survey was designed to uncover problems, obstacles, and other possible shortcomings of IFTA and IRP processes.

## **1. Is the IFTA System Effectively Fostering Cooperation Among the Jurisdictions Governed by the IFTA Agreements?**

The answer to this question is yes, with qualification. Several of our survey questions bear on the issue of inter-jurisdictional trust and cooperation. One survey question was quite direct. When asked how satisfied they were with IFTA, Inc.'s performance on the task of encouraging inter-jurisdictional trust and cooperation, the respondents said it was very effective. They were similarly very satisfied with their communications with IFTA, Inc.

The qualification concerns their lesser degree of satisfaction with the other member jurisdictions compared to their expressed satisfaction with IFTA, Inc. The average response to this question—how satisfied are you with other states/provinces in regard to the coordination of the tax netting/reconciliation of motor fuel taxes?—was somewhat satisfied.

But overall, there was little distrust of other jurisdictions expressed and there was little support for giving jurisdictions the authority to audit carriers based in other jurisdictions.

## **2. Is IFTA, Inc. Effectively Promoting the Allocation of Tax Burdens and Payments Among the Jurisdictions?**

IFTA, Inc. was viewed as a very effective organization in regard to its prime task of coordinating the collection and allocation of fuel taxes. Clearly, the respondents thought IFTA, Inc. and IRP, Inc. were well run. In fact, the study found a strong belief that taxes are being collected in a fair and equitable manner. When asked this question: "In your opinion how effective or ineffective has IFTA been in enhancing your state's ability to collect motor fuel tax revenues equitably?" the mean response was 4.12, which on the 5-point scale is between very effective and extremely effective.

They also indicated that the IFTA Clearinghouse and Regional Processing Center (RPC) were working effectively as tax netting organizations. However, their opinion of the IFTA Clearinghouse was more favorable than that of the RPC.

## **3. Is the IFTA System Effectively Collecting Taxes and Preventing Tax Evasion?**

The findings suggest some problems with tax collection and allocation. Two difficulties in particular stand out: (1) The audits uncover many problems with compliance with the rules for

mileage reporting; and (2) states with high fuel tax rates may be experiencing revenue shortfalls compared to the low tax rate states.

IFTA, Inc. provided data on the percent of audits that produce an assessment—74 percent, a relatively high percentage. In response to our inquiry about the problems uncovered by the audits, the respondents indicated that many audits find that carrier mileage is being under-reported. They also indicated that records were often missing or incomplete. Many also said there was a problem with carriers misallocating mileage to low tax states. This reflects the range of fuel tax levies. In 2004, the diesel tax in Georgia was \$0.12 per gallon, while in the state of New York it was \$0.328 per gallon.

The respondents informed us that 71 percent of the assessments produce a subsequent fuel tax collection. In all, 53 percent of the audits generate additional revenue. It appears to be the case, however, that the total amount of revenue generated per audit is rather small. In 2004, there were 138 audits conducted per jurisdiction; yet the total revenue generated per jurisdiction was estimated to be only \$128,551, which amounts to less than \$1,000 per audit.

Some changes in the audit rules may be needed. Audits do not produce a great deal of revenue and the requirement to audit a certain percentage of the small carriers may be misplaced. Indeed, one IFTA respondent said audits of small licensees did not pay. He went on to say that the audit rules need to be changed—with more audits of large firms and more comprehensive audits, and fewer audits of the small firms. Unfortunately, he said, the IFTA rules require a three-fourths vote by the members to change the audit rules.

He was also convinced that the trucking industry favors current IFTA practices, because they save money on the fuel tax. His assessment may be valid, given the possibility that much of the record keeping is poor and only 3 percent of carriers are audited each year. He offered his state—a state with a high tax on diesel—as an example of one that has lost fuel tax revenues as a result of IFTA. The reason for the loss in his opinion is that the audits are not comprehensive enough to capture what is owed each state. That is, the states cannot do sufficiently thorough audits of the large carriers, audits that would ensure that they are paying their full obligation.

## **Implications for Other Multijurisdictional Taxes and Fees**

The experience of the states with IFTA is relevant for the issue of other multi-jurisdictional taxes or fees. IFTA appears to handle tax netting and reconciliation with efficiency and few, if any, conflicts between the states. The creation of an oversight organization comparable to IFTA, Inc seems feasible for addressing issues related to collection and administration of taxes such as that

on remote sales. The base state concept too seems directly applicable to the sales tax. Large as well as small retailers could register in a base state and keep records of their transactions from each store or location of sale. As with IFTA, auditing too could be handled by the base state.

As Pitcher (2001) argues some form of federal involvement will probably be necessary to ensure uniformity of reporting and enforcement. The IFTA experience suggests that this may not be as difficult as is commonly assumed, as legal issues appear to have been resolved with little conflict between the states.

In sum, there is good reason to assume that IFTA and IRP represent workable models of multi-state tax and fee assessment and administration, models that could be applied to other state tax administrative efforts for those state taxes that involve multi-state or multi-national businesses and corporations. Supported by Congressional action, these cooperative initiatives appear to be successful approaches to assessing tax liabilities and assuring the cooperating states that the taxes due them are being paid and corporations and businesses benefit from not having to comply, independently, with multiple state tax collection and auditing processes. IFTA standards and processes clarify collection and auditing standards and insure that state differences in tax rates and the like do not lead to tax by-pass efforts by the transportation carriers. The reconciliation processes tend to insure that an individual state is receiving taxes due and militate against excessive interstate tax competition. In all likelihood, the lessons learned in the development and operation of IFTA and IRP can be applied to the administration of other multi-jurisdictional taxes and fees.

# **Chapter 1: IFTA and IRP: Commercial Fuel Tax and Registration Fee Allocation across Multiple Jurisdictions**

## **1.1. Introduction**

In the U.S., the 50 state governments collect taxes both from individuals and businesses. However, many of the taxpayers owing money to a particular state do not reside in or have their place of business in that state and many taxpayers doing business in more than one state must apportion their tax obligation to more than one jurisdiction. In such circumstances, tax collection can require cooperation among two or more states. Thus, the administration of tax collection systems and processes becomes more complex and intricate when multiple jurisdictions are involved. Examples include the administration of sales taxes to be paid by remote vendors, fuel taxes paid by commercial carriers, and the assessment of corporate tax liability by companies doing business in multiple jurisdictions.

This study focuses on the system used to collect fuel tax payments from commercial trucking firms operating in more than one state. With the exception of Oregon, 47 of the 48 contiguous states and 10 Canadian Provinces levy a tax on the fuel—mostly diesel fuel—used by interstate commercial carriers, a tax customarily paid at the retail pump or wholesale rack upon purchase. The states and provinces also charge commercial vehicle registration fees for operating commercial vehicles in their jurisdictions. These taxes and fees provide a substantial share of the road fund or other transportation revenue in each of the states and provinces.

The method for imposing fuel taxes and registration fees on interstate commercial carriers differs from that used to impose taxes on noncommercial carriers and intrastate commercial carriers. Interstate commercial carriers are asked to pay registration and fuel taxes in proportion to the number of miles they drive in each jurisdiction—American state or Canadian province. Noncommercial and intrastate carriers, in contrast, pay the registration fee and fuel tax imposed by their jurisdiction. They do not have to apportion their fees and taxes based on the miles driven in different jurisdictions.

The collection of fuel taxes and registration fees from interstate commercial carriers is difficult for a variety of reasons. First, tax rates per gallon as well as registration fees vary across the states and provinces. Second the application of motor fuel taxes also vary; for example, fuel used for farming or construction and fuel sold to Native Americans on their reservations may or may not be taxed, depending on individual state policies. However, the major challenge for tax collection is that interstate commercial carriers purchase fuel at various locations as they

transport goods across state and province lines. This makes the collection of taxes difficult as commercial carriers must pay their taxes and registration fees in direct proportion to the number of miles they drive in each jurisdiction. Likewise, carriers are registered in one state or province and their registration fee payments must subsequently be allocated to the states in accordance with the number of miles they drive in each state or province. For instance, a carrier that drives 30 percent of its total mileage in a particular jurisdiction must pay taxes on the estimated number of gallons used in that jurisdiction, even if the drivers did not purchase any fuel in that jurisdiction. This apportioning of taxes and fees by mileage driven in each jurisdiction is intended to discourage the registration of vehicles in states with low registration fees and the purchase of diesel fuel in states with low per gallon tax rates.

To ensure that fuel taxes are paid in proportion to miles driven in each jurisdiction, commercial drivers are required to keep elaborate and accurate records on miles driven and fuel purchased (and fuel tax paid) in each state or province. These records are reported to the appropriate base jurisdictions, which then allocate the tax burden to each carrier based on the information provided. Since carriers pay taxes at the pump, it is necessary to reconcile the differences between (1) what each carrier has already paid in taxes to each state and the total tax the carrier either owes a particular state or, (2) as it is possible for the carrier to overpay fuel taxes (by purchasing fuel primarily in high tax rate states), what is owed by that state to the carrier. For instance, a driver who buys fuel in a low tax state and drives in a high tax state will owe taxes to the state where most of the driving occurred. Conversely, a driver who buys fuel in a high tax state, but drives disproportionately more in a low tax state, will receive a refund or tax credit from the high tax state.

The appropriate allocation of motor fuels taxes and registration fees to the various states is a challenging task. To facilitate the process of tax allocation, two organizations have been created—IFTA, Inc and IRP, Inc. They are multi-jurisdictional organizations whose purpose is to assist the states and Canadian provinces in more accurately administering their motor fuels and vehicle registration programs. In doing so, they provide oversight of the collection of taxes and fees and provide standards and guidance for tax and fee allocation. They were established by the International Fuel Tax Agreement (IFTA) and the International Registration Plan (IRP), which were devised to ensure that carriers pay taxes and fees in proportion to the mileage driven in each member jurisdiction (i.e., the 48 states and 10 provinces.)

The tax and fee collection and allocation system is complex, as Figure 2.1 in the next chapter illustrates. Clearly, tax collection and subsequent allocation across the different jurisdiction, including the collection of the fuel tax, is a demanding and sometimes controversial feature of transportation-related revenue systems, as the assignment of tax burdens requires the taxing authority to gather a great deal of information about the economic activity of each taxpayer.

There is also the temptation to conceal that information to avoid paying taxes. Tax collection is also expensive in that it requires the creation of an infrastructure of officials and data processing systems to collect payments, maintain relevant data, and enforce the laws.

## **1.2. Research Questions**

This report provides an overview of the IFTA and IRP processes for allocating fuel tax and registration fee revenues and provides an assessment of these systems in regard to their effectiveness at allocating the tax and fee burden among commercial carriers in an efficient and accurate manner. Three aspects of the system will be assessed by answering the following questions:

1. Is the system effectively fostering cooperation among the 58 jurisdictions governed by the IFTA and IRP agreements?
2. Is it effectively promoting the allocation of tax burdens and payments among jurisdictions?
3. Is it effectively collecting tax payments and preventing tax evasion?

Answers to these questions will provide the information needed to address a fourth question: Can the operation and experience of IFTA/IRP provide insights into how other multi-state consortiums can be organized to successfully collect taxes across multiple jurisdictions?

The research approach involved two steps. The first was a review of the documents and literature pertaining to IFTA and IRP, which provided a detailed picture of IFTA, Inc., the organization that oversees the collection of fuel taxes, and a detailed description of IRP, Inc., the organization that oversees the collection and allocation of registration fees. Since the task of IFTA, Inc. is more complex than that of IRP, Inc. and fuel taxes generate much more revenue than registration fees, the study devotes more attention to IFTA.

The second step was a survey of IFTA officials from the 58 jurisdictions to obtain their assessment of the current operation of the fuel tax and motor carrier registration systems. This survey was designed to uncover problems, obstacles, and other possible shortcomings of IFTA and IRP processes from the states' and provinces' perspectives.

This report is also concerned with the effectiveness of the systems for allocating fuel taxes and registration fees paid by interstate commercial carriers across jurisdictions. Neither IFTA, Inc. nor IRP, Inc. is responsible for the actual collection of the fuel taxes or registration fees paid by commercial carriers. However, each plays a vital role in facilitating cooperation between member jurisdictions.

## **Chapter 2: IFTA and IRP Processes and Structures**

### **2.1. Background Information and History**

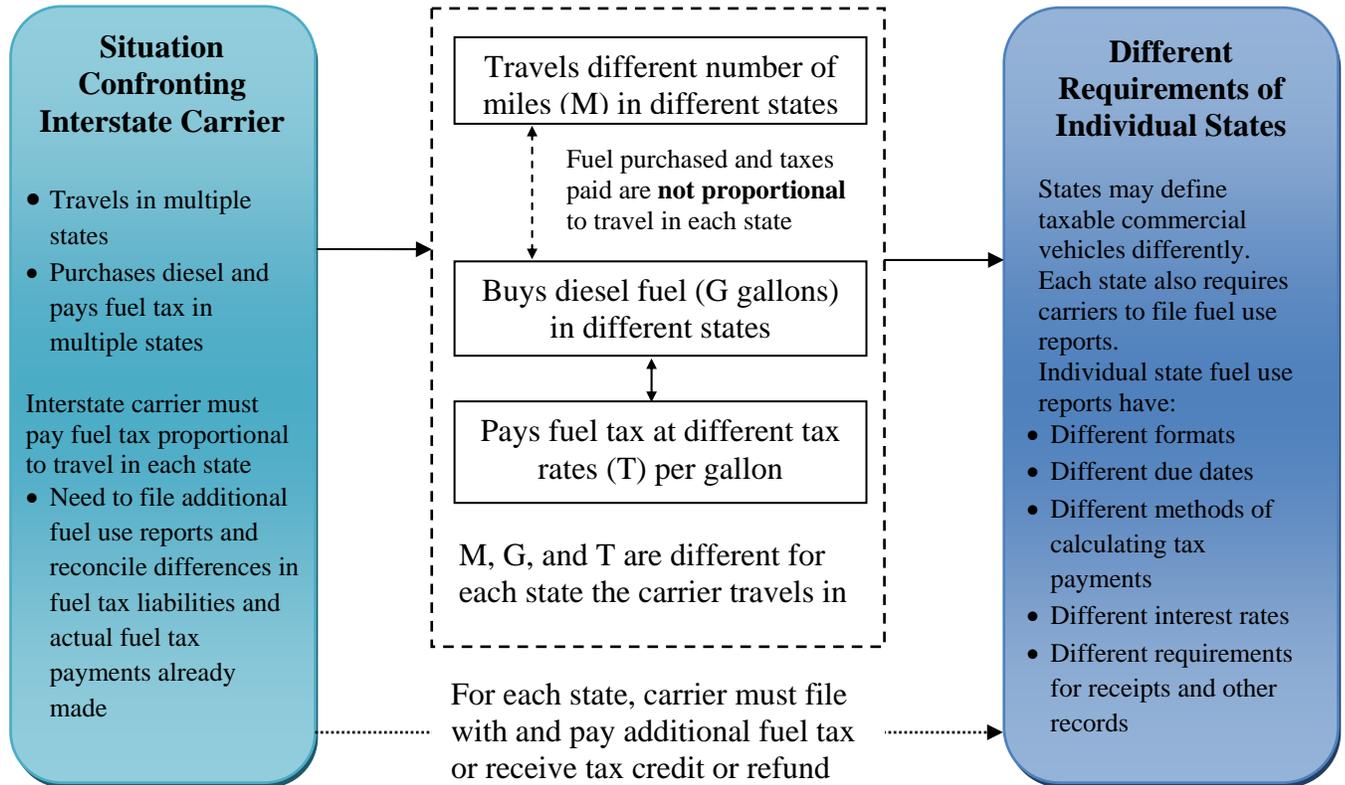
The current system for coordinating the allocation of fuel taxes across jurisdictions—the International Fuel Tax Agreement—was created in 1991 to reduce the complexities of allocating and collecting commercial carrier motor fuel taxes. In 1991, the Congress passed and George H. W. Bush signed into law the Intermodal Surface Transportation Efficiency Act (referred to as ISTEA). Title IV of ISTEA, which built upon previous state agreements for commercial vehicle registration and fuel tax reporting, was an efficient national framework for inter-jurisdictional cooperation in the allocation and collection of fuel taxes.

Before the development of IFTA, carriers faced a complex and costly fuel tax environment. Each state required each carrier that traveled in it to file a fuel use report. As described by Pitcher (2001), “[t]hese had different formats, different due dates, different methods of calculating the tax due, different rates of interest for underpaid liabilities, and different requirements for receipts and other records that needed to accompany a return.” In addition, the states differed in regard to their definitions of taxable vehicles and varying fees for different types of vehicles. Some states mandated the posting of bond by carriers subject to the tax. The complex nature of this process is described in Figure 2.1.

Carriers complained of excessive expense in time and money in trying to comply with the various state requirements. These expenses grew with deregulation of the trucking industry and the attendant expansion of interstate trucking in the 1980s. In response, groups representing the industry drafted legislation to create a base state system that would simplify compliance.

The International Registration Plan—a base state system for paying vehicle registration fees—was their model. The International Registration Plan was devised in 1973 by the American Association of Motor Vehicle Administrators (AAMVA). Today the 48 states and 10 Canadian provinces are members of the IRP and participate in the plan, which authorizes registration of over 2 million commercial vehicles. The IRP is run by a board of directors and is associated with AAMVA. At this time, the states and provinces that participate in the IRP also participate in IFTA.

**Figure 2.1. The Complex Process for Paying Fuel Tax Prior to IFTA**



### The International Fuel Tax Agreement

ISTEA authorized the Federal Highway Administration (FHWA) to fund a working group to assist with the development of IFTA. At that time, several states had cooperative agreements concerning the collection and allocation of fuel taxes. But most states did not participate in these agreements.

The National Governors’ Association managed the “Base-State Working Group” that oversaw the admission of all states into IFTA as well as the disbursement of all technical assistance. ISTEA also established another incentive for states to join the IRP and IFTA. “[A]fter September 20, 1996 no State shall establish, maintain or enforce any law or regulation which has fuel use tax reporting requirements (including tax reporting) which are not in conformity with the International Fuel Tax Agreement.” (ISTEA section 4008(g)(1)).

It is noteworthy that ISTEA did not require states to join IFTA. The incentives were sufficient to encourage participation in IFTA and today all 48 contiguous states and 10 Canadian provinces are members. Moreover, IFTA is not a federal program. IFTA has been categorized as a hybrid

program by the National Conference of State Legislatures—a combination of interstate compact, administrative agreement among states, and contract between states and taxpayers. In this respect, IFTA is unique. Its legal basis is through the concept of the interstate compact, which is permissible under Article 1, Section 10, Clause 3 of the U.S. Constitution (Sundeen and Goehring 1999).

IFTA has three core provisions, statutorily authorized by ISTEPA:

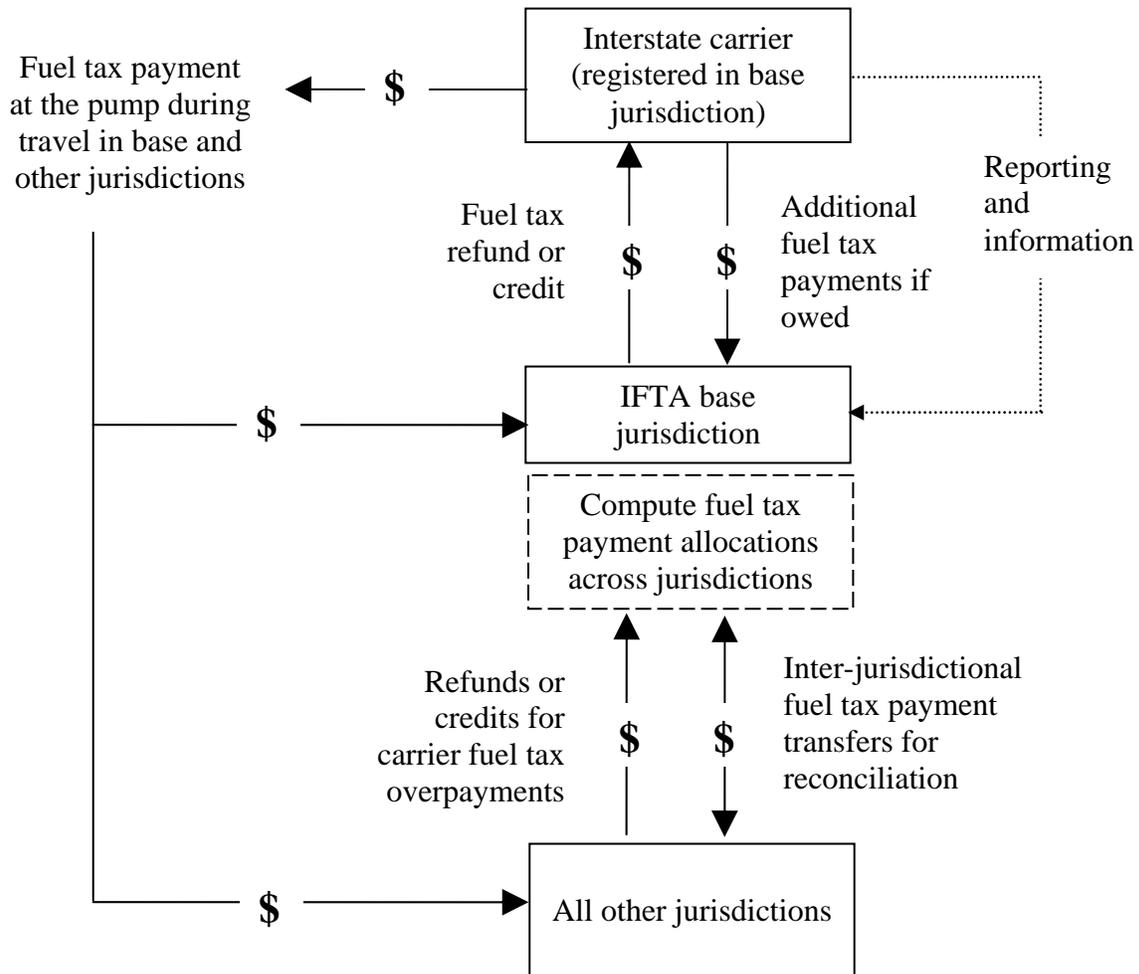
- (1) The base jurisdiction concept, which allows a licensee to report and to pay motor fuel use taxes to a base jurisdiction for distribution to other member jurisdictions in which the licensee traveled and incurred motor fuel tax liability;
- (2) Retention of each jurisdiction's sovereign authority to determine tax rates, exemptions and exercise other substantive tax authority; and
- (3) A uniform definition of the vehicles to which the Agreement applies.

Under the base state concept, a carrier chooses a state and files its quarterly fuel use tax reports to that state alone. The flow of payments and reconciliation process is outlined in Figure 2.2. A carrier can pay fuel tax at the pump or pay directly to the base state. Thus, when the carrier owes more money than paid at the pump to another jurisdiction or its base state, the carrier pays the base state, which then transfers the money to itself or the other jurisdictions. The base state can also receive payments from the other jurisdictions if the carrier is owed a refund.

Under IFTA and IRP, the base state shoulders the responsibility of reconciling tax payments among the jurisdictions. It does so by gathering the requisite information—on travel miles in each jurisdiction and on fuel tax payments in each jurisdiction—from the carriers. Each carrier reports its travel miles, fuel use and fuel taxes paid in all member states on a spreadsheet and then pays the net tax due or receives a net tax credit or sometimes a refund. The base state then distributes each month to the other states in which the carrier operated the net tax due or receives tax credits from them. That is, the base state assumes the responsibility of reconciling the net tax obligation and concomitant payments among the member jurisdictions.

The base state or jurisdiction is responsible for gathering and disseminating the necessary information to compute each interstate carrier's tax and fee obligation to the jurisdictions in which it traveled. As Figure 2.2 demonstrates, tax payments flow to the IFTA base jurisdiction from the carrier, from fuel merchants that originally collected the fuel tax, and from the other jurisdictions. The process of reconciliation is complex in that the final assessment of fuel tax obligation requires the accurate compilation of the miles driven in each jurisdiction. It is possible for some carriers to owe additional taxes to their base jurisdiction or to other jurisdictions, which is the reason that there are two sets of arrows in Figure 2.2 leading to and from the base jurisdictions—one set to and from the carriers and the other to and from the other jurisdictions.

**Figure 2.2. The Flow of Information and Fuel Tax Payments/Credits under the IFTA Tax Reconciliation System**



Reconciliation of taxes between jurisdictions occurs monthly. At this time there is no provision for paying interest on the funds held during the month in the jurisdiction that owes money to another jurisdiction. The states and provinces do not make interest payments to each other. However, the carriers—as the taxpayers—do pay interest on late payments. They can also be assessed fines.

Although the states and provinces can levy different tax rates, IFTA imposes uniformity upon the system in several ways. All IFTA members must accept the same definition of a qualified motor vehicle. IFTA provides a uniform format for the fuel use report along with uniform due dates. It also provides a uniform method for calculating the tax due, as well as interest on late payments.

Bonds are no longer required under IFTA. Further, IFTA creates a uniform system for auditing carriers for compliance with the requirements of the fuel tax.

### **IFTA, Inc**

IFTA is run by its members—the 48 contiguous states and 10 Canadian provinces. They meet annually and can amend the terms of the IFTA Agreement by a three-quarters vote. However, IFTA's everyday operations are carried out by IFTA, Inc., an administrative unit and repository located in Tempe, Arizona. IFTA, Inc. is governed by a board of trustees made up of state and provincial fuel tax administrators who represent the 58 member jurisdictions.

IFTA, Inc. does not collect tax payments or returns. That is a responsibility of the member jurisdictions. It does, however, compile information useful for tax reconciliation as well as information on carrier licensing and suspensions or revocations of licenses. The latter is important, as the fuel tax agreement is enforced by restricting access to other jurisdictions through the revocation of permits (Denison and Facer 2005).

Each jurisdiction (the 48 contiguous states and 10 provinces) is a member of IFTA, Inc. A membership fee is levied on every member jurisdiction. The membership fee is paid annually and is based upon a budget adopted by majority vote at the annual IFTA meeting. IFTA's membership sets dues for IFTA members. In 2006, each jurisdiction paid \$10,000 to belong to IFTA. The jurisdictions that use the IFTA clearinghouse pay an additional \$1,000 for this service.

Table 2.1 summarizes the organization of IFTA, Inc. It has officers and a Board of Trustees. It also has bylaws that establish its five standing committees:

- (1) A procedures committee responsible for the review and maintenance of the IFTA procedures manual;
- (2) An audit committee, responsible for the review and maintenance of the IFTA Audit manual;
- (3) An industry advisory committee that advises and assists the procedures Committee and the audit committee;
- (4) A program compliance committee; and
- (5) A law enforcement committee, whose members are representatives of law enforcement agencies of member jurisdictions affecting motor carriers.

IFTA, Inc. also maintains an information clearinghouse, which is responsible for the maintenance and administration of licensee demographic and transmittal data, sent to it by participating members. The data includes licensee name, address, IFTA license number, license status and other information. IFTA, Inc. does not collect tax payments or returns. It does assist

the base jurisdictions in processing tax returns and audits by providing technical assistance to the member jurisdictions and licensees. In other words, the IFTA clearing house makes it possible for members to exchange data on the motor carriers that pay taxes in all the jurisdictions. Presumably, this reduces the ability of carriers to avoid paying taxes. However, at this time, IFTA is also considering the development of a system for collecting and disbursing tax payments.

**Table 2.1. The Organization of IFTA, Inc.**

<p><b>Seven Staff Member Positions in Chandler, Arizona</b></p> <ol style="list-style-type: none"><li>1. Executive Director</li><li>2. Program Compliance</li><li>3. Program Director</li><li>4. Information Systems Analyst</li><li>5. Webmaster</li><li>6. Events Coordinator</li><li>7. Executive Assistant</li></ol> <p><b>Five Standing Committees</b></p> <ol style="list-style-type: none"><li>1. Audit Committee—composed of 11 officials from member states and provinces</li><li>2. Law Enforcement Committee—composed of 15 officials from member states and provinces</li><li>3. Program Compliance Review Committee—composed of 10 officials from member states and provinces</li><li>4. Agreement Procedures Committee—composed of 10 officials from member states and provinces</li><li>5. Industry Advisory Committee—composed of employees from 24 of trucking firms and trucking-related consultants and associations</li></ol>
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All jurisdictions must adhere to the IFTA Articles of Agreement, which established uniform standards for reporting motor fuel use, average miles per gallon, and miles traveled in each state and province. This self-reported data is then used to compute a commercial carrier’s motor fuels tax liability to each of the states and provinces in which the carrier operated. The carrier reports to its designated base state all fuel tax liabilities (both in the base state and in other jurisdictions in which it operated).

IFTA, Inc. conducts yearly business meetings and arranges a number of workshops and training sessions for its members and their employees. It also conducts periodic peer reviews of each jurisdiction’s adherence to the terms of the IFTA agreement, including reviews of the audits of

carriers performed by the member jurisdictions. One-fourth of the jurisdictions are reviewed each year.

### **Regional Processing Center**

The tax payment reconciliation function is quite complex as it requires the compilation of information from carriers to compute their tax burden in each jurisdiction in which they operated. This part of the task can be performed by state or province employees of the jurisdiction or by a contractor. Fifteen of the U.S. states employ an entity referred to as the Regional Processing Center (RPC) run by New York State from Albany as a subcontractor to compute tax burdens and reconcile tax obligations between the carriers and the jurisdictions. The RPC has two service levels. The first is the ‘complete package’ of services. A jurisdiction employing the RPC supplies to the RPC all the demographic information for IFTA taxpayers (the carriers) based in their jurisdiction. In addition to the demographic information, data is kept on taxpayer status (active, inactive, suspended, revoked), registration type, fuel types used, jurisdictions traveled etc. The other RPC option available to jurisdictions is the funding only portion. This option allows a jurisdiction to process returns on their own platform and, via a RPC data entry screen, enter their liability amounts for each IFTA jurisdiction prior to the final netting deadline.

As Figure 2.3 summarizes, the RPC collects payments from the jurisdictions and in some cases from the carriers. When appropriate it sends money or refunds to the jurisdictions and carriers. The RPC performs final netting each month. Final netting is the process where the system nets amounts due between RPC jurisdictions to prevent money from transferring unnecessarily between jurisdictions. For example, if New York State owes Alabama \$5,000 and the latter owes New York State \$3,000, New York would be required to send \$2,000 to Alabama, which would send no money to New York. The process with non-RPC IFTA jurisdictions is a little different but the results are the same.

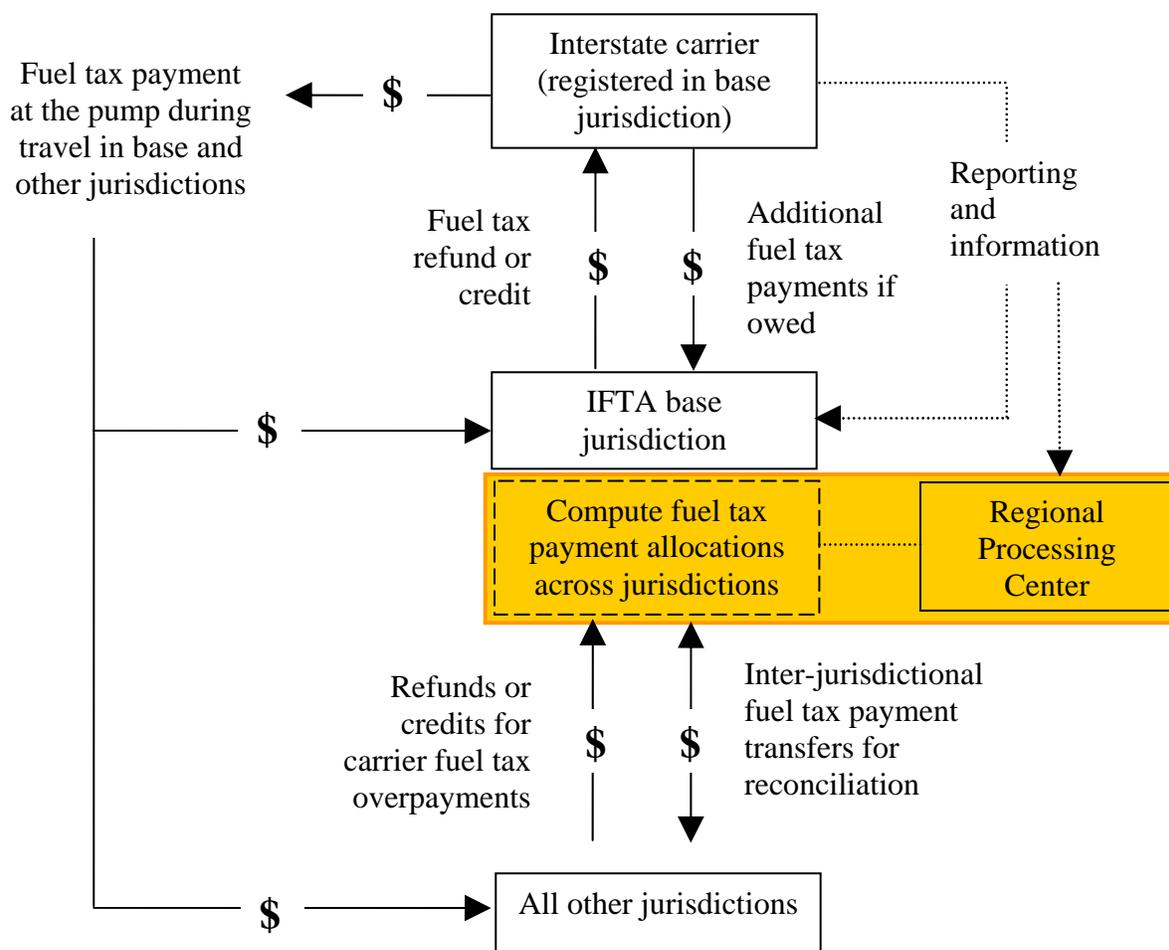
### **IFTA Audits**

Jurisdictions are required to audit yearly 3 percent of the registered carriers in their state or province. The IFTA Articles of Agreement states that an audit means the following:

- (1) The physical examination of the source documentation of the licensee’s operations whether in detail or on a representative sample basis;
  - (2) The evaluation of the internal controls of the licensee’s accounting system and operations;
- and

- (3) The accumulation of sufficient competent evidential matter to afford a reasonable basis for determining whether or not there are any material differences between actual and reported operations for each affected jurisdiction in accordance with the provisions of the International Fuel Tax Agreement and all affected jurisdictions' fuel use tax laws.

**Figure 2.3. The Flow of Information and Fuel Tax Payments/Credits To and From the Regional Processing Center**



In regard to the number of audits, the IFTA audit manual states: “base jurisdictions will be held accountable for audits and will be required to complete audits of an average of 3 percent per year of the number of IFTA accounts...” The audit manual specifies that at least 15 percent of each member jurisdiction’s audit requirement shall involve low-distance accounts. Low distance accounts are considered to be the number of miles or kilometers reported in all member jurisdictions. At least 25 percent of each member jurisdiction’s audit requirement shall involve high-distance accounts. High distance accounts are considered to be the 25 percent of the

previous year's licensees who had the highest number of miles or kilometers reported in all member jurisdictions. The determination of low or high distance is based on the total miles or kilometers reported by all IFTA licensees on their annual reports.

The standard approach and logic of an audit is described in the manual in these words. "Audit emphasis should be placed on evaluation of the licensee's distance accounting system, as distance allocation by jurisdiction is the basis for determining the licensee's fuel consumption and tax obligation for each jurisdiction." Auditors are expected to do the following: (1) select at least three representative months of a licensee's operation with respect to computations of jurisdiction distance via routes traveled and to insure that all miles or kilometers are reported in the system; and (2) select the licensees to be audited on a sampling basis.

The base jurisdiction shall audit its licensees on behalf of all member jurisdictions. This shall not preclude another jurisdiction from also auditing a licensee.

### **Records Requirements for Carriers**

According to the Articles of Agreement, "Every licensee shall maintain records to substantiate information reported on the tax returns. Operational records shall be maintained or be made available for audits of the base jurisdiction." Recordkeeping requirements are specified in the IFTA Procedures Manual. For instance, the licensee must report all fuel placed in the supply tank of a qualified motor vehicle as taxable on the tax return.

Tax reporting is quarterly. The licensee (the carrier) files a tax return for the tax reporting period with the base jurisdiction and pays all taxes due to all member jurisdictions with the remittance payable to the base jurisdiction.

The carriers have a significant incentive to report accurate data. Failure to do so can lead to revocation of permits and decals.

### **Credits or Refunds to Carriers**

To obtain credit for tax paid purchases, the licensee must retain a receipt, invoice, credit card receipt, or automated vendor generated invoice or transaction listing, showing evidence of such purchases and taxes paid. The receipt must show evidence of tax paid directly to the applicable jurisdiction or at the pump.

A licensee shall receive full credit or refund for tax-paid fuel used outside the jurisdiction where the fuel was purchased. The base jurisdiction shall allow credits and issue refunds for all of its licensees on behalf of all member jurisdictions. Refunds to licensees will be made only when all tax liability, including audit assessments, have been satisfied to all member jurisdictions. The licensee must request the refund. Credits not refunded are carried over to offset liabilities the licensee incurs in future periods.

### **IFTA, Inc. and the Trucking Industry**

The trucking industry was deeply involved in the creation of IFTA. As noted above, it benefited from the reduction in compliance costs that was one of IFTA's goals. Even though the trucking industry is not directly involved in the governance of IFTA, Inc. it currently works with IFTA, Inc. in a variety of ways. For example, its representatives attend IFTA meetings as well as serve on the IFTA Industry Advisory Committee.

### **The International Registration Plan**

The International Registration Plan (IRP) is a registration reciprocity agreement among the American states and Canadian provinces providing for payment of license (registration) fees on the basis of total distance operated in each jurisdiction. Under the IRP, each carrier has a base jurisdiction in which it is registered. The base jurisdiction is where the registrant has an established place of business, where distance is accrued by the fleet, and where operational records of the fleet are maintained. Each fleet vehicle has a base plate, which is the plate issued by the base jurisdiction and is the only registration identification plate issued for the vehicle by any member jurisdiction.

The IRP apportions fees to the states based on a commercial carrier's total miles driven in each jurisdiction. The unique feature of this Plan is that, even though license fees are paid to the various jurisdictions in which fleet vehicles are operated, only one license plate and one cab card is issued for each fleet vehicle when registered under the Plan. The states conduct the reconciliation of fees. IRP, Inc. has a clearinghouse for tax netting, but does not have an organization like the IFTA Regional Processing Center.

Each state must pay dues to the IRP. The dues are based on the number of power units (tractors) registered in the jurisdiction. As a result, each state pays a different amount to belong to IRP.

## **Cooperation between IFTA and IRP**

Currently IFTA, Inc. and IRP, Inc. are discussing the possibility of joint audits conducted by the states to enforce IFTA and IRP. The possibility of saving time and money by conducting joint audits rests on the fact that both audits use the same information—carrier records on mileage in each jurisdiction. This cooperation only applies to audits of carriers. The audits of the states' procedures and compliance will remain separate.

## **2.2. The Determination of Registration Fees and Fuel Tax Payments**

Carriers must keep operational records defined as documents supporting the total distance traveled in each jurisdiction and total distance traveled (e.g., fuel reports, trip sheets and driver logs.)

Registration fees are determined in three steps:

- (1) Divide the in-jurisdiction miles or kilometers by the total distance generated during the preceding year.
- (2) Determine the total fees required under the laws of each jurisdiction for full registration of each vehicle at the regular annual or applicable fees.
- (3) Multiply the sum obtained in step 2 by that obtained in step 1.

Thus, for example, if 30 percent of a carrier's mileage occurred in a specific jurisdiction—say, Nebraska—then the carrier must pay 30 percent of Nebraska's annual registration fee (i.e., pay the dollar value created by multiplying 0.30 by Nebraska's annual fee.).

The computation of a carrier's fuel tax obligation follows a different procedure. The fuel tax owed to each jurisdiction is based on an estimate of the gallons consumed by a fleet in a given state. The estimated number of gallons is multiplied by the tax rate per gallon to obtain the total fuel tax owed. Any taxes paid at the pump are subtracted from the amount owed. If the carrier's fleet paid more in state fuel taxes at the pump than its estimated tax liability, the carrier is offered a refund or a credit.

In order to compute the tax liability in a state, it is necessary to obtain an accurate estimate of the number of gallons consumed in a state, which in turn is based on an accurate estimate of the average mileage per gallon of the fleet in the state. Accuracy is required, because a carrier can evade taxes by, for instance, overestimating his mileage per gallon at 3 miles, when it was only 2 miles per gallon—an overestimate that would produce a one third drop in the total tax liability.

In short, although computed in different ways, the registration fees and fuel tax payments require accurate information on the miles driven in each jurisdiction. With the creation of IFTA and IRP, if commercial carriers follow the rules, they will have access to the information they need to compute their registration and tax liability to each jurisdiction. The same is true of the states. They can compute the refunds to carriers who have paid more than required.

## **Chapter 3: Tax Evasion Issues**

### **3.1. Fuel Tax Evasion**

The fuel tax is vulnerable to evasion because of the complexity of the fuel distribution system and the existence of federal and state tax exemptions for a number of off-road and other uses (farming, industrial, and construction). Much of the diesel fuel consumed in the United States is used for home or industrial heating, both of which are tax-exempt.

While IFTA and IRP were principally established to ensure the appropriate allocation of fuel tax and registration fee burdens, the mandated audit and reconciliation processes may also discover tax evasion. According to Denison and Eger (2000), most fuel tax evasion occurs after the tax is collected from the citizen and before it is remitted to the state. This form of evasion is perpetrated by vendors of fuel. IFTA does not address this problem. Their function is twofold: (1) appropriately allocate carrier tax and registration fee revenue among the jurisdictions; (2) audit carriers to ensure that they are not evading taxes and fees. As purchasers of fuel, trucking firms and carriers evade taxes in several ways—by misreporting their consumption of fuel or mileage and by misreporting the jurisdictions in which fuel is consumed. They can also evade taxes by using fuel that is designated for non-taxed, off-road uses.

The advent of IFTA has not eliminated motor fuel tax cheating and the system requires enforcement to ensure compliance. Since the system is based on self-reporting, it is necessary for the states to audit the record-keeping of the carriers. Audits are set up to ensure the accuracy of the reports on fuel use, fleet mileage in each state, and miles per gallon calculations, and the number and type of trucks that a firm has in its fleet.

Clearly, auditing is an essential aspect of IFTA and IRP enforcement. Carriers can profit from erroneous reports of mileage in a specific jurisdiction and fuel purchases. Thus, in regard to registration fees, carriers could avoid full payment of registration fees by making high mileage estimates for travel in low fee states. Such reporting could cause states to get less registration revenue than they would have if the carrier had reported its actual mileage. Insuring the validity of mileage reporting is, therefore, an important aspect of the IRP system. The same is true of IFTA.

IFTA and IRP rely on accurate record keeping by the carriers. To deter fraudulent record keeping, carriers must fear being caught. This requires an enforcement system with frequent

audits of carriers' record-keeping and the imposition of sufficiently heavy penalties to deter cheating.

But the extent to which the states are effectively discouraging tax evasion is open to question. Clearly, there are many ways to cheat. In addition to falsifying reports on fuel purchases and miles driven in specific states, commercial carriers can also cheat by purchasing fuel meant for tax-exempt uses. This form of tax evasion has been reduced in incidence but not entirely eliminated with recent reforms.

### **Recent Changes in Fuel Tax Enforcement**

In 1990, enforcement officials created the Joint Federal/State Motor Fuel Tax Compliance Project, known as the Joint Project. It has led to changes in law, regulation emphasis, enforcement resources, and changes in state-federal relations.

The most effective change is The Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66), which moved the incidence of the Federal excise tax on diesel fuel to the point of removal from bulk storage at the terminal and required all tax exempt diesel fuel to be dyed.<sup>1</sup> Since January 1, 1994, only dyed fuel may be removed from bulk storage without payment of the federal diesel fuel excise tax. (The terminal rack is where fuel from bulk storage tanks is loaded into tanker trucks for delivery to retail stations or to bulk users).

The necessity for dyeing is due to the large amount of diesel that is used for untaxed consumption—for agriculture, construction, and other off-road activities and by federal, state, and local governments. In 1994, less than 50 percent of diesel fuel was consumed nationally for on-road, taxable purposes.

Enforcement is conducted by the IRS and state agencies. By 1999, more than 25 states had adopted diesel fuel tax legislation recognizing the dyeing requirements for untaxed fuel and adopting penalties for improper use of dyed fuel. Today, all states enforce dyeing requirements.

Section 13242 prescribes a penalty of \$1,000 or \$10 for every gallon of fuel involved, whichever is greater, for using dyed fuel for a taxable use. The penalty increases with subsequent violations by multiplying the penalty by the number of previous violations.

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<sup>1</sup> The terminal rack is where fuel from bulk storage tanks is loaded into tanker trucks for delivery to retail stations or to bulk users.

## **3.2. Fuel Tax Enforcement**

IFTA relies on a system of licenses, decals, and permits to facilitate enforcement. Carriers who operate one or more qualified vehicles in two or more IFTA jurisdictions must register for an IFTA license, which is issued by the base jurisdiction.

Carriers are issued a single IFTA license for all qualified motor vehicles and two decals for each qualified motor vehicle. The carrier must make copies of the license and carry a copy in each qualified motor vehicle. In addition the carrier must affix two decals, one on each side of the cab of each qualified motor vehicle to be operated under the IFTA license.

Fuel tax enforcement has two main thrusts: (1) payment of the tax at the rack by wholesalers; and (2) payment by carriers based on the mileage driven in a jurisdiction. The wholesalers operate their own fleets and must dye the fuel to be used for untaxed purposes. Some states require trucks that transport automotive fuel to obtain a specific license.

### **Research Findings on Enforcement and Tax Evasion**

According to Baluch (1996), the highway trust fund (HTF) revenue from the diesel tax increased over \$1 billion in the year after the requirements for fuel dyeing went into effect on Jan. 1, 1994, net of the tax rate increases also enacted in 1993. Some \$600-700 million of this increase has been estimated to be the result of improved compliance attributable to the fuel dyeing program.

Baluch (1996) expected the 1993 law to eliminate or reduce two forms of tax evasion: daisy chains and diversion of tax-free fuel to highway use. Moving the point of tax incidence would reduce daisy chains (the multiple transfers of fuel between fictitious companies to conceal the party liable for remitting the tax). Baluch hypothesized an increase of the following methods of tax avoidance as a result of the 1993 law: illegal blending of taxable with untaxed products, bootlegging across state or international boundaries, and efforts to circumvent the terminal rack.

Denison and Facer (2005) view IFTA as an example of a successful effort at tax coordination across jurisdictions. They found a rough correlation between the population and gross state product of a state and the number of carriers using it as a base jurisdiction. This suggests that carriers are not choosing low tax and low registration states as a base jurisdiction. They note a possible advantage of carriers choosing the more populous and economically active states—such states are more likely to have the tax capacity to conduct more audits. The

evidence in Tables 3.1 and 3.2 suggest otherwise. In 2004, California audited 2.1 percent of its carriers, New York 2.4 percent, and Texas 2.9 percent. It appears that the states are not exceeding the IFTA mandate to audit 3 percent of carriers each year. Indeed, many of the states and provinces failed to audit 3 percent of their carriers in 2004.

**Table 3.1: Carrier Accounts and Audits – Canadian Jurisdiction**

<b>Jurisdiction</b>	<b>Carrier Accounts</b>	<b>Number of Audits</b>	<b>% Carriers Audited</b>
Alberta	2,373	49	2.1%
British Columbia	1,537	32	2.1%
Manitoba	1,055	13	1.2%
New Brunswick	1,183	10	0.9%
Newfoundland	119	4	3.4%
Nova Scotia	679	21	3.1%
Ontario	5,711	133	2.3%
Prince Edward Island	260	8	3.1%
Quebec	7,820	245	3.1%
Saskatchewan	830	28	3.4%

Source: IFTA, Inc. Annual Report 2004

Clearly, collecting fuel tax at the rack has reduced evasion of federal taxes. But Denison and Eger (2000) conclude that the variation in state fuel tax rates still provides carriers with an incentive for bootlegging. Logically, it also provides an incentive for carriers to misreport the miles driven in a high tax jurisdiction. IFTA and IRP are designed to prevent such tax evasion. However, the extent to which they succeed is still an open question, as research is lacking.

It is possible, moreover, that tax evasion is occurring because the states are not conducting a sufficient number of audits to minimize tax avoidance and maximize fuel tax and registration fee revenues. The positive effect of frequent auditing on tax collections is well-documented. For instance, Eger and Hackbart (2005) found that more frequent auditing, accomplished by increasing the number of auditors employed by a state, appears to increase fuel tax revenues.

Denison and Facer also suggest that fuel tax enforcement is aided by the advent of trip recorders and electronic vehicle management systems. These can be used to verify the reported miles driven in a state without imposing additional audit costs on the taxpayer. But their utility to auditors has not been established.

**Table 3.2. Carrier Accounts and Audits – by U.S. Jurisdiction**

<b>Jurisdiction</b>	<b>Carrier Accounts</b>	<b>Number of Audits</b>	<b>% Carriers Audited</b>
Alabama	4595	79	1.7%
Arizona	3100	56	1.8%
Arkansas	3132	86	2.7%
California	12006	254	2.1%
Colorado	2615	68	2.6%
Connecticut	2583	102	3.9%
Delaware	1493	49	3.3%
Florida	9507	198	2.1%
Georgia	7415	214	3.0%
Idaho	3070	143	4.7%
Illinois	11890	448	3.8%
Indiana	6983	288	4.1%
Iowa	6516	197	3.0%
Kansas	3116	48	1.5%
Kentucky	3845	133	3.5%
Louisiana	2153	58	2.7%
Maine	2697	47	1.7%
Maryland	6382	188	2.9%
Massachusetts	4422	142	3.2%
Michigan	5708	147	2.6%
Minnesota	5711	175	3.1%
Mississippi	3752	112	3.0%
Missouri	6299	149	2.4%
Montana	1497	50	3.3%
Nebraska	4216	150	3.6%
Nevada	1565	66	4.2%
New Hampshire	2817	101	3.6%
New Jersey	12024	381	3.2%
New Mexico	1875	36	1.9%
New York	10893	264	2.4%
North Carolina	10919	392	3.6%
North Dakota	2081	60	2.9%
Ohio	11714	371	3.2%
Oklahoma	3546	66	1.9%
Oregon	4449	171	3.8%
Pennsylvania	16101	566	3.5%
Rhode Island	1414	24	1.7%
South Carolina	3815	107	2.8%
South Dakota	4132	78	1.9%
Tennessee	5105	208	4.1%
Texas	9873	288	2.9%
Utah	2412	86	3.6%
Vermont	1575	47	3.0%
Virginia	7176	199	2.8%
Washington	4393	148	3.4%
West Virginia	2717	90	3.3%
Wisconsin	4332	108	2.5%
Wyoming	1128	41	3.6%

Source: IFTA, Inc. Annual Reports 2004

## **Chapter 4: State and Province Officials on IFTA and IRP Organization, Operations and Effectiveness**

### **4.1. Survey Overview**

In late September 2006, a survey concerning the experiences of member jurisdictions with IFTA and IRP operations, along with their evaluations of IFTA and IRP effectiveness was sent to the official IFTA contact person in each IFTA jurisdiction (i.e., the 48 states and 10 Canadian provinces). The survey was comprehensive and addressed the following broad topics:

- (1) Background information on the respondent and the state agencies responsible for IFTA and IRP audits and IFTA and IRP tax netting and reconciliation;
- (2) IFTA-related organizational memberships and legal issues;
- (3) Issues pertaining to IFTA audit practices and audit findings;
- (4) Costs associated with IFTA membership;
- (5) Overall IFTA Effectiveness; and
- (6) IRP-related organizational memberships and legal issues.

After filling out the survey, the respondents returned the survey by mail, e-mail or fax. The survey instrument is included in Appendix 2. In all, 33 of the 58 IFTA states and provinces (57%) returned useable surveys. Figures 4.1 and 4.2 show the American states and Canadian provinces that responded to the survey.

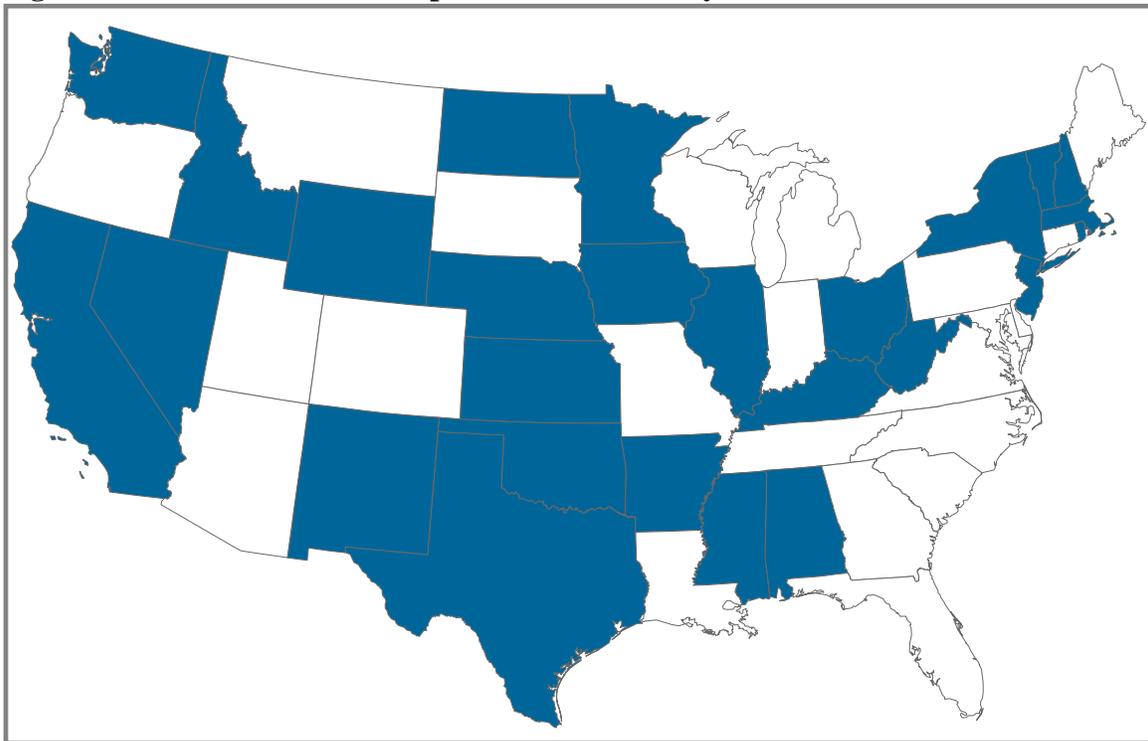
The survey findings in conjunction with other data facilitate exploration of our three study goals. We asked several types of questions. Some were on Likert scales that ask people to rate a facet of IFTA along a dimension. For example, one question asked: “Overall, how effective do you feel IFTA is in meeting its mission of fostering inter-jurisdictional trust and cooperation.” The respondents were given 5 possible responses with associated numerical values ranging from 1 to 5: 1 – extremely ineffective; 2 – somewhat ineffective; 3 – somewhat effective; 4 – very effective; and 5 – extremely effective. Other questions called for a written response, which could vary in length from one or two words to several paragraphs.

First we present the findings from each of the six survey sections listed above. We then address our three study goals.

**Figure 4.1. Canadian Provinces that Responded to the Survey**



**Figure 4.2. U.S. States that Responded to the Survey**



## 4.2. Background Information on Respondent and State Agencies Responsible for IFTA and IRP

In this section we asked the respondents to identify the departments responsible for the audit and tax netting or reconciliation function for IFTA and IRP. Many states separate the audit function from the tax netting or reconciliation function. Although similar in many respects, IFTA and IRP are separate programs and may be located in different government departments. In addition the audit function may be located in a different department than tax netting or reconciliation, where the tax obligation of each carrier is determined and monies are allocated to the states. As Table 4.1 indicates two state government agencies house the bulk of these activities: the department of transportation (DOT) and the department of revenue or treasury.

**Table 4.1. Division of Responsibility for Two IFTA and IRP Functions**

<b>Function</b>	<b>DOT Responsibility</b>	<b>Revenue Department Responsibility</b>	<b>Other Department Responsibility</b>
<b>IFTA Audit</b>	33%	57%	10%
<b>IFTA Tax Netting</b>	38%	57%	5%
<b>IRP Audit</b>	50%	40%	10%
<b>IRP Tax Netting</b>	79%	11%	11%

The findings in Table 4.1 show that the DOT and the Revenue or Tax Departments tend to divide the responsibility fairly equally, except for the responsibility for IRP tax netting, which disproportionately goes to the DOTs. Overall, revenue cabinets have more responsibility for IFTA functions and DOTs have more responsibility for IRP functions. They are less likely to do so for tax netting. In fact, revenue departments control only 11 percent of IRP tax netting. This probably reflects the historic role of DOTs in vehicle registration. It may also reflect the more recent origin of IFTA than the IRP.

## 4.3. IFTA-related Organizational Memberships and Legal Issues

Jurisdictions can choose to join the Regional Processing Center (RPC) operated by the state of New York. It performs tax netting services for the states that pay for its services. States that do not join can perform the tax netting function themselves or they can pay IFTA, Inc. to perform the function. Thirty six percent of the respondents indicated that they use the RPC for tax netting/reconciliation between the states. Those who use it were given a list of possible advantages paying for the RPC and asked to select the advantages to their state from use of the RPC. Sixty-four percent said it was cost effective for tax netting; 73 percent cited

access to technical expertise; 64 percent cited its use for obtaining information; and 73 percent said it reduced the need for additional staff.

Three questions were used to gauge respondent assessment of the value of RPC services. The first asked “How satisfied are you with the services provided by the RPC?” *Extreme dissatisfaction* is scored 1; *extreme satisfaction* 5. A 3 on the scale was designated as *somewhat satisfied*. The average response was 3.80, which suggests a moderate degree of satisfaction. Another question asked: “How satisfied are you with communication with the RPC?” Here the average response was 3.50. The respondents indicated more satisfaction on the last question: “How satisfied are you with coordination of tax netting by the RPC?” The average response was 3.80.

The IFTA Clearinghouse offers services similar to the RPC. Respondents indicated a moderate level of satisfaction with the information provided by the IFTA Clearinghouse—an average score of 3.75.

The respondents indicated that their jurisdiction did not have to change its laws to join the RPC. The states, however, did have to pass legislation to join IFTA and IRP. The following is an example of a law—from Kentucky—authorizing participation in IFTA (138.227 Authorization for entry into International Fuel Tax Agreement or certain other cooperative compacts or agreements).

### **The Wording of Kentucky’s Statutory Authorization of IFTA**

“The Transportation Cabinet may enter the International Fuel Tax Agreement or other cooperative compacts or agreements with other states or jurisdictions in order to permit base state or base jurisdiction licensing of persons using motor fuel in this state. Those agreements may provide for the cooperation and assistance among member states in the administration and collection of motor fuel tax, including, but not limited to, exchanges of information, auditing and assessing of interstate carriers and suppliers, and any other activities necessary to further uniformity.”

In response to a question about the presence of legal conflicts between the laws of their state or jurisdiction and IFTA, a few states mentioned conflicts over interest rates for refunds. California said there was a conflict over the taxation of fuel trip permits, which are not taxable under IFTA, but are under California law. Most states said there were no conflicts or that IFTA rules replaced the state rules.

#### **4.4. IRP-related Organizational Memberships and Legal Issues**

All the states and provinces belong to the International Registration Plan (IRP). Most respondents said that legal authorization was needed to join. When asked to elaborate on the changes made in their statutes they mentioned the need to bring their statutes into agreement with the IRP requirements. Many mentioned the process of apportioning fees among the states. Some statutes involved changes in such details of vehicle registration as trip permits, temporary authority, empty weight permits, and suspension/revocation rules. These changes were made in the 1970s and no subsequent legal problems were mentioned.

IRP dues paid by the jurisdictions to IRP, Inc vary depending on the number of vehicles registered in the base jurisdiction. In this study the smallest reported dues payment was \$6,000 and the largest was \$31,000. The average dues payment was \$17,422.

#### **4.5. Issues Pertaining to IFTA Audit Practices and Audit Findings**

The audit manual calls for each jurisdiction to audit 3 percent of its carriers that use it as a base jurisdiction. As noted earlier many states did not reach the 3 percent requirement in 2004. But many were close to 3 percent and some were over; so, on average, the jurisdictions are in rough compliance with the requirement.

We asked respondents how they selected carriers for audits. Most said they used random sampling in accord with the requirements of the IFTA audit manual. However, many also said they looked for indicators of possible tax avoidance. In Kentucky, for example, audits are selected both randomly and based on indicators such as low miles for the number of decals (trucks), miles per gallons problems, and fuel credit issues. Idaho uses a combination of methods: “Idaho uses random sampling for all sizes of carriers to meet the IFTA audit stratification requirements—plus we select non-complying licensees, re-audits for compliance reasons, or licensees who consistently file inaccurate quarterly returns.” Several respondents mentioned such indicators of reporting inaccuracy as constant miles per gallon or high miles per gallon. Nova Scotia selects large carriers with bulk fuel for audits.

The vast majority of audits—some 74 percent—find a problem with the carrier’s records and tax payments, an error that results in an assessment for taxes not paid. We asked the respondents to indicate the percent of those assessments that result in a subsequent collection of additional motor fuel tax revenue. They informed us that 71 percent resulted in a payment. Thus, approximately 53 percent of all audits ( $0.74 \times 0.71$ ) produces added revenue. However,

the total amount generated by the audits in the average jurisdiction was not very large—\$128,551 per jurisdiction (see Table 4.2).

**Table 4.2. Three Indicators of Efficiency and Effectiveness of the IFTA Audit Process by the States and Provinces**

% of Audits That Produce a Monetary Assessment	74%
% of Monetary Assessments That Produce an Additional Fuel Tax Payment	71%
% of All Audits That Produce an additional Fuel Tax Payment	53%
Estimated Mean Dollar Value of Assessment-related Collections in 2004	\$128,551

Audit assessments can be levied for several reasons. We asked the respondents to estimate the percent of IFTA audit assessments levied for a set of likely reasons. The average estimate for each category of error is in Table 4.3.

**Table 4.3 Estimate of Average Percent of IFTA Audit Assessments Levied by Source of Error**

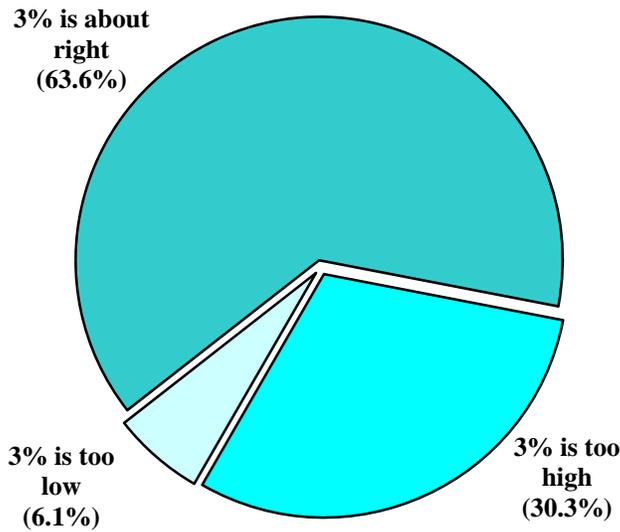
Underreporting Mileage	57.3%
Late Reporting	4.9%
Misallocating Mileage to Low Tax-rate States	14.0%
Misreporting of Off-Road/Tax-Exempt Use	6.8%
Other	31.1%

The most common error is underreporting of mileage—the average estimate of the percent of errors due to underreporting was 57 percent. The second most common was the other category—33 percent. This category included such errors as missing fuel reports and lack of records. These categories and the ones offered to the respondents are not mutually exclusive. This fact and the large estimate of other may account for the total percent of types of errors exceeding 100 percent. From the respondents’ estimates, it seems likely that the misallocating of mileage to low tax-rate states is a continuing problem, as (14 percent) of audit assessments are attributed to misallocation of mileage. Indeed, this is reported to be a greater problem than misreporting of off-road/tax-exempt use (7 percent). While the underreporting of mileage is a problem for all jurisdictions, the misallocation of mileage may produce substantial losses for the high tax rate jurisdictions, a possibility discussed in the next chapter.

One method for reducing tax avoidance is to increase the number of tax audits conducted by the jurisdictions. The current mandate is 3 percent of carriers. We asked the IFTA officials if the annual requirement of 3 percent was too low, about right or too high (see Figure 4.3).

Only 6.1 percent said it was too low. A full 63.6 percent said it was about right and 28.1 percent said it was too high. Of these most said it should be 2 percent or even 1 percent.

**Figure 4.3. Evaluation of the IFTA Rule for Auditing Three Percent of Carriers Each Year**



There appear to be several reasons for the objection to the 3 percent requirement. One is the belief expressed by one respondent that the requirement that a specific percentage of audits be directed at small carriers is a waste of resources. Audits of the large firms, it was stated, are much more likely to generate tax revenue, even if a smaller percentage of the audits uncover mistakes.

The other reason appears to be related to the perceived costs of doing audits. One indicator of this belief is the estimated cost of adding auditors. The survey proposed an increase in the audit coverage from its current 3 percent of carriers in the base jurisdiction per year to 5 percent per year. The respondents were then asked to estimate the additional resources need in employees and dollars. The average estimate was 4.5 employees and \$284,306.

Under the current set of audit rules and the IFTA agreement, a jurisdiction cannot audit a carrier based in another jurisdiction. One possible method for reducing the incidence of tax avoidance is to change this rule. The respondents were asked: “Do you believe that your state/province could increase revenue significantly if it could audit carriers based in other states/provinces rather than relying on IFTA audit rules?” In response 85 percent said no and 15 percent said yes. One possible reason for this negative reaction may be a belief expressed

by several respondents—that IFTA audits are not a moneymaker compared to the other tax audits (e.g., sales tax) carried out by the revenue department.

The survey asked several questions concerning the advisability of combining IFTA and IRP audits. They share a similar audit methodology, based on inspection of mileage records and many states currently combine them. We were interested in the reaction of the states that do not combine them to the possibility of doing so in the future. Seventy-seven percent of the jurisdictions said they combine IFTA and IRP audits at this time. Of those who do not do so, 75 percent said it would be advantageous to do so in the future. One state that has combined them explained its reason for doing so: “The majority of our carriers have both IFTA and IRP, so it seemed logical to cover both areas while the auditors were on location... It seems to be working. It’s such a natural and practical procedure to do combined audits with IFTA and IRP. States are concerned with conserving taxpayer dollars and you can do more with less by combining audits.” Combining the audits is probably hindered by the current system of dividing responsibilities in many states between the revenue and transportation departments. One respondent succinctly stated opposition to combining the audits with this explanation: “Two different agencies are involved.” But another reason was offered: “IRP auditors conducted joint IRP/IFTA audits for a period of time prior to 2000. I lost four auditors and at that time IRP stopped conducting IFTA audits.” The implication here is that the additional work requires additional auditors to prevent overburdening the individuals currently conducting the audits..

#### **4.6. Costs Associated with IFTA Membership**

IFTA members pay dues to belong to IFTA. These are set by the IFTA membership and were \$10,000 in 2006.

The survey contained some questions about the additional costs associated with IFTA to the jurisdiction. The tax netting and audit functions require employees to do the work. These, of course, generate personnel costs. Some states use the Regional Processing Center (RPC) in Albany, New York to perform the tax netting function. We asked the respondents who use the RPC to tell us how much they pay annually for its services. The average payment was \$82,125.

For those that do not use the RPC to do tax netting, we asked for the approximate cost of performing that function in-house. The average estimate of the tax-netting function (\$162,859) was considerably more than the average payment to the RPC, which suggests that the RPC is efficiently run.

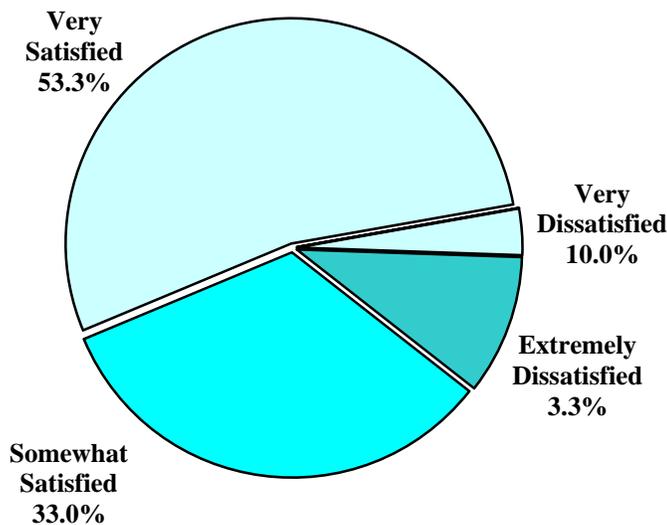
We also asked this question: “Please estimate the dollar amount of all the additional costs associated with the administration of IFTA-related activities (e.g., enforcement, audits, staff, etc.)” This estimate—\$747,206—was much greater than the two estimates of tax netting expenses. Almost all respondents provided an estimate of their costs, which implies it is the budget for the IFTA section. Therefore we decided not to add the tax-netting estimates to it.

#### 4.7. Attitudes about IFTA, Inc. Effectiveness

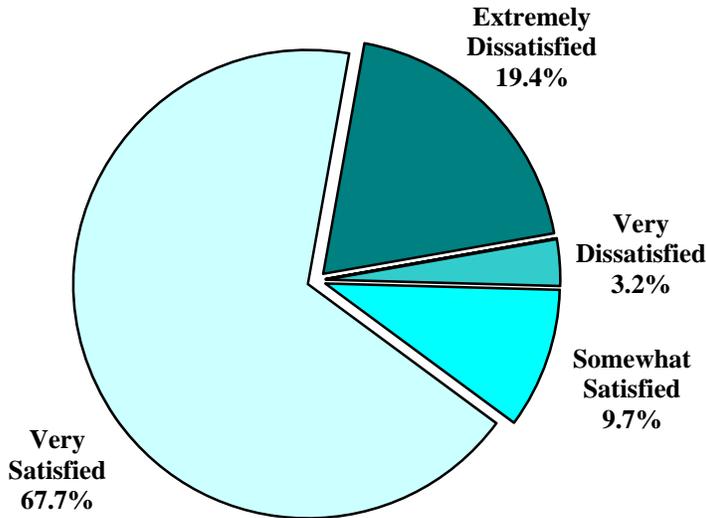
The survey contained a number of Likert type questions to elicit the opinions of IFTA state and province officials concerning IFTA, Inc.’s overall effectiveness. IFTA, Inc.’s core mission is to facilitate inter-jurisdictional reconciliation of tax payments, so the questions focused on cooperation and communication between IFTA, Inc., the respondent’s jurisdiction, and the other jurisdictions. For IFTA to work effectively all three must work in harness. As explained above, the respondents were asked to respond on a scale from 1 to 5, with 1 being *extremely dissatisfied* and 5 being *extremely satisfied*. The midpoint of the scale was a 3, which was described as *somewhat satisfied*. Two of the questions used this format:

- (1) How satisfied are you with other states/provinces in regard to the coordination of the netting/reconciliation of motor fuel taxes? The mean score was 3.37, which is one-third of the way between *somewhat satisfied* and *very satisfied*. Responses to this question are summarized in Figure 4.4.
- (2) How satisfied are you with communications with IFTA, Inc? The level of satisfaction was 4.03, which translates into *very satisfied*. Responses to this question are summarized in Figure 4.5.

**Figure 4.4. Satisfaction with Other States Coordination of Tax Netting**

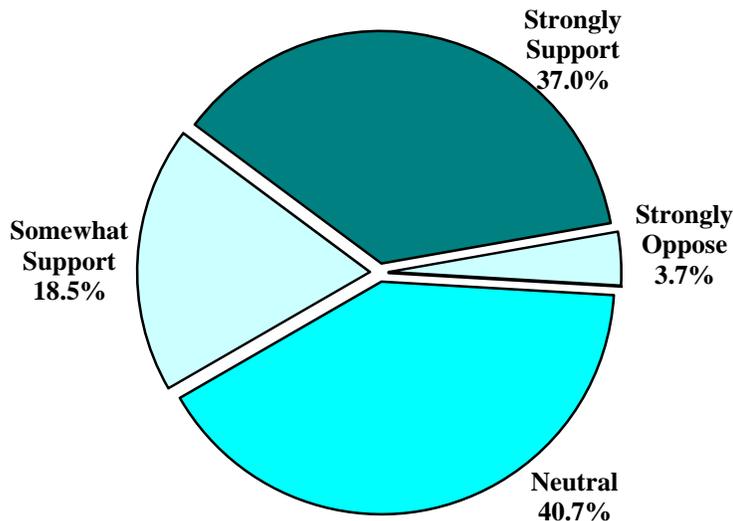


**Figure 4.5. Satisfaction with Communication with IFTA.**



Several questions were designed to elicit an assessment of IFTA, Inc. The first in this series of questions asked: “Please indicate your level of support for IFTA, Inc.’s direct involvement in tax netting or reconciliation activities.” The scale ranged from *strongly oppose* to *strongly support*. The responses to this question are shown in Figure 4.6. There was strong support for this proposal of IFTA, Inc. involvement in tax netting activities, with more than 50% of responding jurisdictions expressing support.

**Figure 4.6. Support for IFTA, Inc. Involvement in Tax Netting Activities**



Two questions pertained to the effectiveness of IFTA and IFTA, Inc. The responses to both questions are summarized in Table 4.4. The first question asked: “Overall, how effective do

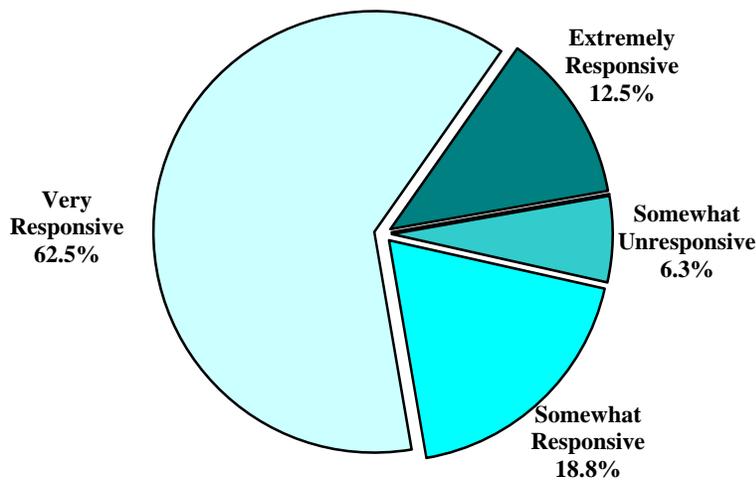
you feel IFTA, Inc. is in meeting its mission of fostering inter-jurisdictional trust and cooperation?” The scale ranged from *extremely ineffective* to *extremely effective*. The mean response was 4.00, which translates into *very effective*. Inter-jurisdictional cooperation requires a perception that taxes are being collected in a fair and equitable manner. We asked this question: “In your opinion how effective or ineffective has IFTA been in enhancing your state’s ability to collect motor fuel tax revenues equitably?” As before, the scale ranged from *extremely ineffective* to *extremely effective*. The mean response was 4.12, indicating that the average jurisdiction found IFTA to be *very effective*. Both questions suggest that states and provinces perceive IFTA to be effective.

**Table 4.4. Effectiveness of IFTA and IFTA, Inc.**

	<b>Extremely Ineffective</b>	<b>Somewhat Ineffective</b>	<b>Somewhat Effective</b>	<b>Very Effective</b>	<b>Extremely Effective</b>
<b>Effectiveness at encouraging inter-jurisdictional trust and cooperation</b>	0%	0%	16.7%	66.7%	16.7%
<b>Effectiveness at enhancing equitable tax collection</b>	0%	0%	11.8%	64.7%	23.5%

Finally, a last question inquired into IFTA’s responsiveness to the concerns of the respondent’s jurisdiction. It asked: “Overall, how responsive has IFTA been to your state’s or province’s legal, policy, or administrative concerns?” The scale ranged from *extremely unresponsive* to *extremely responsive*. The mean score was 3.82, which suggests most respondents view IFTA, Inc as *very responsive* to their respective jurisdiction’s concerns (see Figure 4.7 for responses to this question).

**Figure 4.7. Responsiveness to States’ Legal, Policy, and Administrative Concerns**



## **Chapter 5: Conclusions and Implications for Inter-jurisdictional Tax Collection**

In his 2001 assessment of the International Fuel Tax Agreement, Robert Pitcher concludes: “[IFTA] has been a remarkable success. It has preserved for the states the viability of a highly problematic but important source of highway revenue, and it has removed from a key national industry much of a paperwork and tax compliance burden...that prior to ISTEA was estimated at \$750 million a year.” We found much evidence to support this rosy view of IFTA and we concur that the base state concept is working, as is reliance on IFTA, Inc and the individual jurisdictions to enforce the program. The same positive assessment can be made of the IRP. But we also found some evidence to the contrary in regard to IFTA’s effectiveness. Although on balance IFTA is working, it may need some refinement to improve tax collection. This research addressed three study questions which will be summarized next. These questions are:

- (1) Is the IFTA system effectively fostering cooperation among the 58 jurisdictions governed by IFTA?
- (2) Is IFTA, Inc. effectively promoting the allocation of tax burdens and payments among the jurisdictions?
- (3) Is the IFTA system effectively collecting taxes and preventing tax evasion?

### **5.1. Is the IFTA System Effectively Fostering Cooperation Among the 58 Jurisdictions Governed by the IFTA Agreement?**

The answer to this question is yes, with qualification. Several of our survey questions bear on the issue of inter-jurisdictional trust and cooperation. One survey question was quite direct. When asked how satisfied they were with IFTA, Inc.’s performance on the task of encouraging inter-jurisdictional trust and cooperation, the respondents said it was very effective. They were similarly very satisfied with their communications with IFTA, Inc.

The qualification concerns their lesser degree of satisfaction with the other member jurisdictions compared to their expressed satisfaction with IFTA, Inc. The average response to this question—how satisfied are you with other states/provinces in regard to the coordination of the tax netting/reconciliation of motor fuel taxes?—was only 3.37, which translates into somewhat satisfied.

But overall, there was little distrust of other jurisdictions expressed and there was little support for giving jurisdictions the authority to audit carriers based in other jurisdictions.

The respondents were very satisfied with their communications with IFTA, Inc. They were slightly less satisfied with IFTA, Inc.'s response to their concerns. When asked: "Overall, how responsive has IFTA been to your state's or province's legal, policy, or administrative concerns?" the average response was 3.82, which was four-fifths of the way between somewhat and very responsive.

## **5.2. Is IFTA, Inc. Effectively promoting the Allocation of Tax Burdens and Payments Among the Jurisdictions?**

IFTA, Inc. was viewed as a very effective organization in regard to its prime task of coordinating the collection and allocation of fuel taxes. Clearly, the respondents thought IFTA and IRP were well run. In fact, the study found a strong belief that taxes are being collected in a fair and equitable manner. When asked this question: "In your opinion how effective or ineffective has IFTA been in enhancing your state's ability to collect motor fuel tax revenues equitably?" The mean response was 4.12, which is a point on the scale between *very effective* and *extremely effective*.

They also indicated that the IFTA Clearinghouse and Regional Processing Center (RPC) were working effectively as tax netting organizations. However, their opinion of the IFTA Clearinghouse was more favorable than that of the RPC.

There was no indication that legal issues were a significant problem. Indeed, the legal changes made by the states in order to join IFTA and the IRP appear to have been relatively straightforward with no legal problems of any significance mentioned afterward.

## **5.3. Is the IFTA System Effectively Collecting Taxes and Preventing Tax Evasion?**

The findings suggest some problems with tax collection and allocation. Two difficulties in particular stand out: (1) The audits uncover many problems with compliance with the rules for mileage reporting; and (2) states with high fuel tax rates may be experiencing revenue shortfalls compared to the low tax rate states.

IFTA, Inc. provided data on the percent of audits that produce an assessment—74 percent, a relatively high percentage. Upon enquiring into the problems uncovered by the audits, the respondents indicated that many audits find that carrier mileage is being under-reported. They also indicated that records were often missing or incomplete. Many also said there was a problem with carriers misallocating mileage to low tax states. This reflects the range of fuel

tax levies. In 2004, the diesel tax in Georgia was \$0.12 per gallon, while in the state of New York it was \$0.328 per gallon.

The respondents informed us that 71 percent of the assessments produce a subsequent fuel tax collection. In all, 53 percent of the audits generate additional revenue. It appears to be the case, however, that the total amount of revenue raised per audit is rather small. In 2004, there were 138 audits conducted per jurisdiction; yet the total revenue generated per jurisdiction was estimated to be only \$128,551, which amounts to less than \$1,000 per audit.

Some changes in the audit rules may be needed. Audits do not produce a great deal of revenue and the requirement to audit a certain percentage of the small carriers may be misplaced. Indeed, one IFTA respondent said audits of small licensees did not pay. In his view, states make more money from audits of sales and income taxes. He went on to say that the audit rules need to be changed. There should be more audits of large firms and more comprehensive audits, and fewer audits of the small firms. Unfortunately, he said, the IFTA rules require a three-fourths vote by the members to change the audit rules.

He was also convinced that the trucking industry favors current IFTA practices, because they save money on the fuel tax. His assessment may be valid, given the possibility that much of the record keeping is poor and only 3 percent of carriers are audited each year. He offered his state—a state with a high tax on diesel—as an example of one that has lost significant revenue on IFTA. After IFTA, the revenue assessments from audits went from \$7 million down to \$3 million to \$400,000. The reason for this in his opinion is that the audits are not comprehensive enough to capture what is owed to each state. That is, the states cannot undertake sufficiently thorough audits of the large carriers, audits that would ensure that they are paying their full obligation.

We offered the respondents the opportunity to endorse an increase in the number of audits. Only 6 percent said there were too few audits. Twenty-eight percent said they wanted fewer audits and 64 percent said that 3 percent was the appropriate percentage. One reason for opposition to increasing the audit requirement is the cost of audits. But another reason could be the desire to perform more in-depth audits of large carriers.

We also inquired about the possibility of auditing carriers based in other jurisdictions. Only 15 percent of the respondents endorsed that idea. However, one indicated it might be very useful for auditing large carriers: “more use of joint audits for the extremely large accounts, similar to the multi-state tax commission audits performed for income and sales tax.”

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## **Appendix 1: IFTA Member Jurisdictions**

### Canadian Provinces

Alberta, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island, Quebec, Saskatchewan, Ontario, Labrador, Yukon

### U.S. States

Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

## Appendix 2: IFTA-IRP Survey Questions

### (A) GENERAL INFORMATION

1. State or province: \_\_\_\_\_
2. Contact information:  
Name: \_\_\_\_\_  
Department: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Telephone: \_\_\_\_\_  
E-mail: \_\_\_\_\_
3. How many years experience do you have with IFTA? \_\_\_\_\_
4. How many years experience do you have with IRP? \_\_\_\_\_
5. For each of the following IFTA or IRP function, what is the responsible government department or section?  

<b><u>IFTA Function</u></b>	<b><u>Responsible Department</u></b>
Audits	_____
Tax Netting/Reconciliation	_____

<b><u>IRP Function</u></b>	<b><u>Responsible Department</u></b>
Audits	_____
Tax Netting/Reconciliation	_____
6. In what year did your state/province join IFTA? \_\_\_\_\_
7. In what year did your state/province join IRP? \_\_\_\_\_

**(B) IFTA MEMBERSHIP AND POLICIES/PRACTICES**

8. Did your state/province have to pass new legislation or change existing legislation in order to join IFTA?

- No**
- Yes**

If yes, please explain.

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9. Does your state/province use the services of the Albany Regional Processing Center (RPC)?

- No → Go to question 13**
- Yes**

10. (a) If yes, in what year did your state/province join the RPC? \_\_\_\_\_

(b) Did your state/province have to pass new legislation or change existing legislation in order to use the RPC?

- No**
- Yes**

If yes, please explain.

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11. What are the advantages to your state/province of using the RPC? Please check all that apply.

- Cost effective tax netting or reconciliation**
- Access to technical expertise**
- Information source**
- Reduced need for staff**
- Other** \_\_\_\_\_

12. If your state/province uses the services of the RPC, how satisfied are you with the services provided?

<b>Extremely Dissatisfied</b>	<b>Somewhat Dissatisfied</b>	<b>Somewhat Satisfied</b>	<b>Very Satisfied</b>	<b>Extremely Satisfied</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. If your state/province does not use the RPC, what laws, policies, or other factors contributed to this decision to not use the RPC?

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14. Does your state/province use the IFTA Clearinghouse to obtain information?

- No**
- Yes**

If yes, what information does your state/province obtain from the IFTA Clearinghouse and how is this information used?

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15. How satisfied are you with the information you obtain from the IFTA Clearinghouse?

<b>Extremely Dissatisfied</b>	<b>Somewhat Dissatisfied</b>	<b>Somewhat Satisfied</b>	<b>Very Satisfied</b>	<b>Extremely Satisfied</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

16. What additional types of data or information could the IFTA Clearinghouse provide that would help your state/province with the administration and collection of motor fuel taxes?

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17. (a) Have there been any conflict(s) between IFTA rules and requirements and the laws and policies of your state/province?

- No**
- Yes**

(b) If yes, please describe the conflict(s).

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(c) What did IFTA or your state/province do to resolve the conflict(s)?

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18. Overall, how responsive has IFTA been to your state's or province's legal, policy, or administrative concerns?

<b>Extremely Unresponsive 1</b>	<b>Somewhat Unresponsive 2</b>	<b>Somewhat Responsive 3</b>	<b>Very Responsive 4</b>	<b>Extremely Responsive 5</b>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**(C) EFFECTIVENESS OF IFTA AND IRP**

19. In your opinion, how effective or ineffective has IFTA been in enhancing your state’s ability to collect motor fuel tax revenues equitably?

Extremely Ineffective	Somewhat Ineffective	Somewhat Effective	Very Effective	Extremely Effective
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="checkbox"/>				

20. In your opinion, how effective or ineffective has IRP been in enhancing your state’s ability to collect commercial vehicle registration fee revenues equitably?

Extremely Ineffective	Somewhat Ineffective	Somewhat Effective	Very Effective	Extremely Effective
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="checkbox"/>				

**(D) IFTA AUDIT COVERAGE QUESTIONS**

*Audits and Assessments of Inter-Jurisdictional (IFTA) Carriers*

This section concerns audits and assessments of inter-jurisdictional (IFTA) carriers. According to IFTA records of audits of interstate carriers in your state/province resulted in assessments in 2004. *For the next three questions please provide an estimate if precise numbers are not available.*

21. What was the approximate percent of these assessments that resulted in collections of motor fuels tax revenue? \_\_\_\_\_%

22. What was the approximate dollar amount of assessment-related collections in 2004?  
\$ \_\_\_\_\_

23. *Audit assessments* are levied for several reasons. Please estimate the percent of IFTA *audit assessments* levied for the following reasons.

<b>Underreporting mileage</b>	_____ %
<b>Late reporting</b>	_____
<b>Misallocating mileage to low tax-rate states</b>	_____
<b>Misreporting of off-road/tax-exempt use</b>	_____
<b>Other</b> _____	_____
	<b>100%</b>

24. IFTA requires that 3% of carriers (IFTA accounts) be audited each year. Do you believe that this percentage is:

- Too low**
- About right → Go to question 26**
- Too high**

25. If you think the 3% requirement is too low or too high, what do you think the percentage ought to be? \_\_\_\_\_%

26. In order to increase the audit coverage from its current 3% per year to 5% per year, your state/province may need additional staff and/or resources.

(a) How many additional employees would your state/province need to conduct the additional audits? \_\_\_\_\_ additional employees

(b) What is the estimated additional dollar amount needed to conduct the additional audits? \$\_\_\_\_\_

27. Do you believe that your state/province could increase revenue significantly if it could audit carriers based in other states/provinces rather than relying on current IFTA audit rules?

- No**
- Yes**

28. What strategies for conducting IFTA audits does your state/province follow? For example, how do you sample carriers?

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*Audits and Assessments of Intrastate (i.e. non-IFTA) Carriers*

This section concerns audits and assessment of **intrastate** carriers in 2004. *For the next four questions, please provide an estimate if precise numbers are not available.*

- 29. What was the approximate percent of **intrastate** carriers in your state/province that were audited in 2004? \_\_\_\_\_%
  
- 30. What was the approximate percent of audits of **intrastate** carriers in your state/province that resulted in assessments in 2004? \_\_\_\_\_%
  
- 31. What was the approximate percent of these **intrastate** assessments that resulted in collections of revenue? \_\_\_\_\_%
  
- 32. What was the approximate dollar amount of these **intrastate** assessment-related collections in 2004? \$\_\_\_\_\_

*Other Audit and Enforcement-related Questions*

- 33. How does your state/province ensure that carriers who purchase bulk fuel are paying the appropriate fuel taxes?

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- 34. What does your state do to ensure that carriers are not using dyed fuel for taxable uses?

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**(E) COSTS ASSOCIATED WITH IFTA MEMBERSHIP**

**If your state/province does not use the RPC, go to question 36.**

35. If applicable, how much does your state/province pay for membership in the Regional Processing Center (RPC)? \$ \_\_\_\_\_

36. If you do not utilize RPC for fuel tax netting (reconciliation), what is the approximate cost to your state/province for the tax netting (reconciliation) function?  
\$ \_\_\_\_\_

37. Please estimate the dollar amount of all the additional costs associated with the administration of IFTA-related activities (e.g., enforcement, audits, staff, etc.)  
\$ \_\_\_\_\_

**(F) COORDINATION WITH IFTA AND OTHER JURISDICTIONS**

This section concerns the inter-jurisdictional reconciliation of tax payments. Please select the appropriate response.

38. (a) How satisfied are you with **other** states/provinces in regard to the coordination of the netting (reconciliation) of motor fuel taxes?

Extremely Dissatisfied 1	Somewhat Dissatisfied 2	Somewhat Satisfied 3	Very Satisfied 4	Extremely Satisfied 5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(b) What suggestions do you have for improving tax reconciliation with other states/provinces?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

39. (a) How satisfied are you with communications with IFTA, Inc.?

<b>Extremely Dissatisfied</b>	<b>Somewhat Dissatisfied</b>	<b>Somewhat Satisfied</b>	<b>Very Satisfied</b>	<b>Extremely Satisfied</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(b) What suggestions do you have for improving communication with IFTA, Inc.?

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40. (a) Please indicate your level of support for IFTA, Inc.'s direct involvement in tax netting or reconciliation activities.

<b>Strongly Oppose</b>	<b>Somewhat Oppose</b>	<b>Neutral/ No Opinion</b>	<b>Somewhat Support</b>	<b>Strongly Support</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(b) What other functions or activities do you feel IFTA, Inc. could serve?

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41. Overall, how effective do you feel IFTA, Inc. is in meeting its mission of fostering inter-jurisdictional trust and cooperation?

<b>Extremely Ineffective</b>	<b>Somewhat Ineffective</b>	<b>Somewhat Effective</b>	<b>Very Effective</b>	<b>Extremely Effective</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please explain your response.

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**If your state/province does not use the RPC, go to question 43.**

42. How satisfied are you with the RPC in regard to:

(a) communication with the RPC

Extremely Dissatisfied	Somewhat Dissatisfied	Somewhat Satisfied	Very Satisfied	Extremely Satisfied
1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(b) coordination of tax netting (reconciliation) with other states/provinces

Extremely Dissatisfied	Somewhat Dissatisfied	Somewhat Satisfied	Very Satisfied	Extremely Satisfied
1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(c) What suggestions do you have for improving RPC communication and/or tax reconciliation?

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**(G) IRP MEMBERSHIP AND POLICIES/PRACTICES**

43. Did your state/province have to pass new legislation or change existing legislation in order to join IRP?

- No**
- Yes**

If yes, please explain.

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44. How much does your state/province pay annually for IRP?  
\$ \_\_\_\_\_

45. How is IRP reconciliation conducted?

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46. What suggestions do you have for improving IRP procedures?

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47. What procedures does your state/province have in place to assure compliance with IRP registration requirements?

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*For more information or a complete publication list, contact us at:*

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